Multifamily Fundamentals Begin to Stabilize

▲ 5.5%
Vacancy Rate

▼ 73,700
Completions (units)

▼ 52,200
Net Absorption (units)

▶ +0.4%
Y-o-Y Rent Growth Rate

▼ $19.8B
Investment Volume

Note: Arrows indicate change from previous quarter.
Source: CBRE Research, CBRE Econometric Advisors, Q1 2024. Based on the 63 markets that comprise CBRE EA's Sum of Markets.

Executive Summary

- Year-over-year rent growth held steady with Q4 at 0.4%. Average annual rent growth likely will remain relatively flat over the short term before beginning to accelerate in the second half of 2024.
- The overall multifamily vacancy rate increased by only 10 basis points (bps) quarter-over-quarter to 5.5%. Although job growth and household formation continue to drive positive absorption, the vacancy rate will likely drift slightly higher through midyear.
- Construction completions of 73,700 units in Q1 boosted the rolling-four-quarter total by 26% to a record 429,500 units. Fewer construction starts in recent quarters will lower deliveries in 2025 and beyond.
- Net absorption totaled 52,200 units in Q1—the third highest Q1 total in over 20 years. Demand continues to close the gap with new supply, as some markets had near parity between the two in Q1.
- Multifamily investment volume fell by 28% quarter-over-quarter to $19.8 billion, the lowest quarterly total since Q2 2020.

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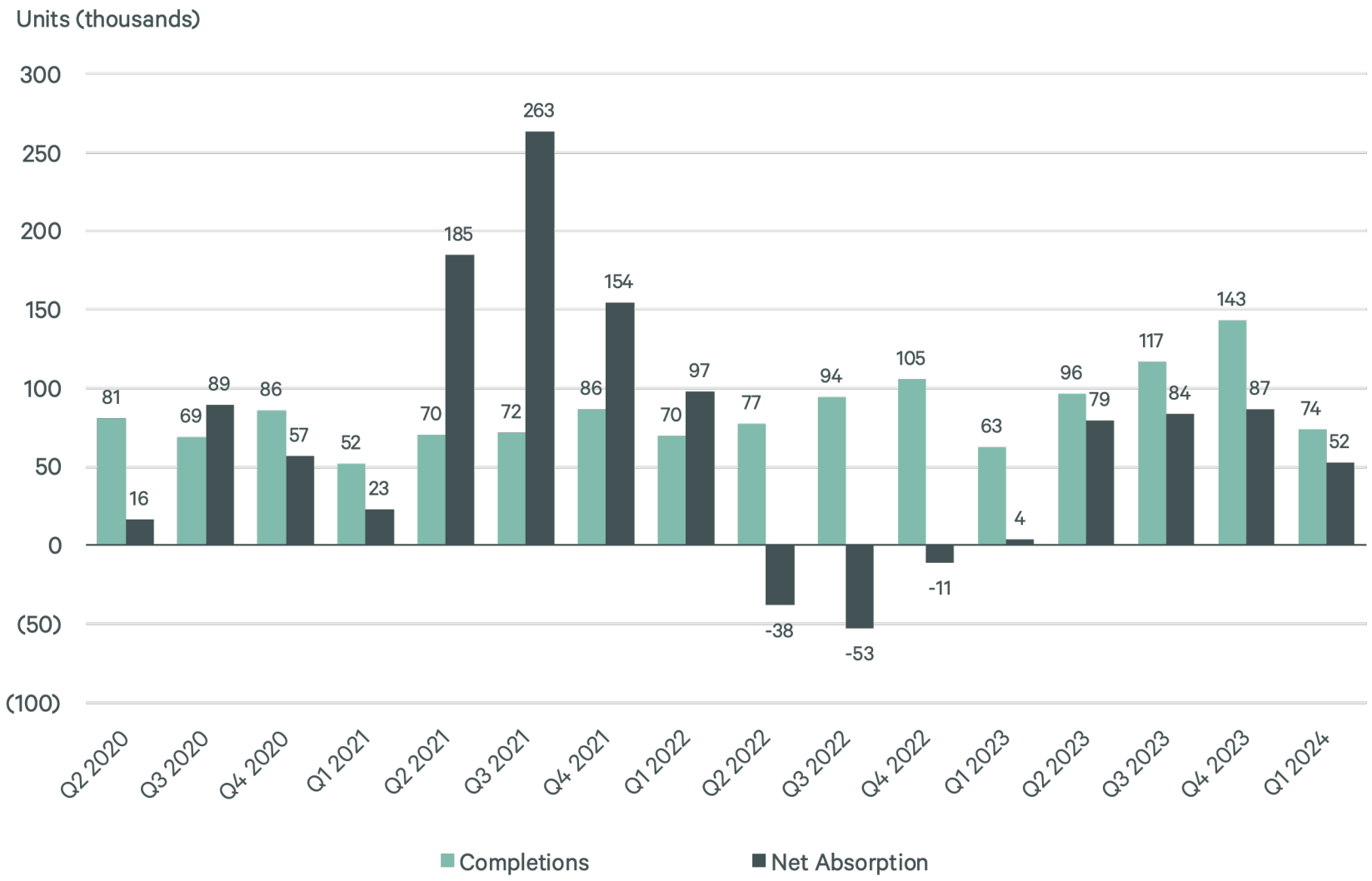
Figure 1
Strong Q1 demand closes gap with new supply

- While down from Q4 2023, net absorption totaled 52,200 units in Q1—the third highest Q1 total in over 20 years and 47% greater than the pre-pandemic Q1 average.
- Annual net absorption of 301,700 units—15% above the pre-pandemic average—was a big improvement from the negative annual net absorption of 98,000 units a year ago.
- Construction completions of 73,700 units in Q1 boosted the rolling-four-quarter total by 26% year-over-year to a record 429,500 units. While demand fell short of new completions, the gap on both a quarterly and annual basis continued to shrink.
- Fewer construction starts in recent quarters will lower the number of new deliveries in 2025 and beyond.



Source: CBRE Research, CBRE Econometric Advisors, Q1 2024. Based on the 63 markets that comprise CBRE EA's Sum of Markets.

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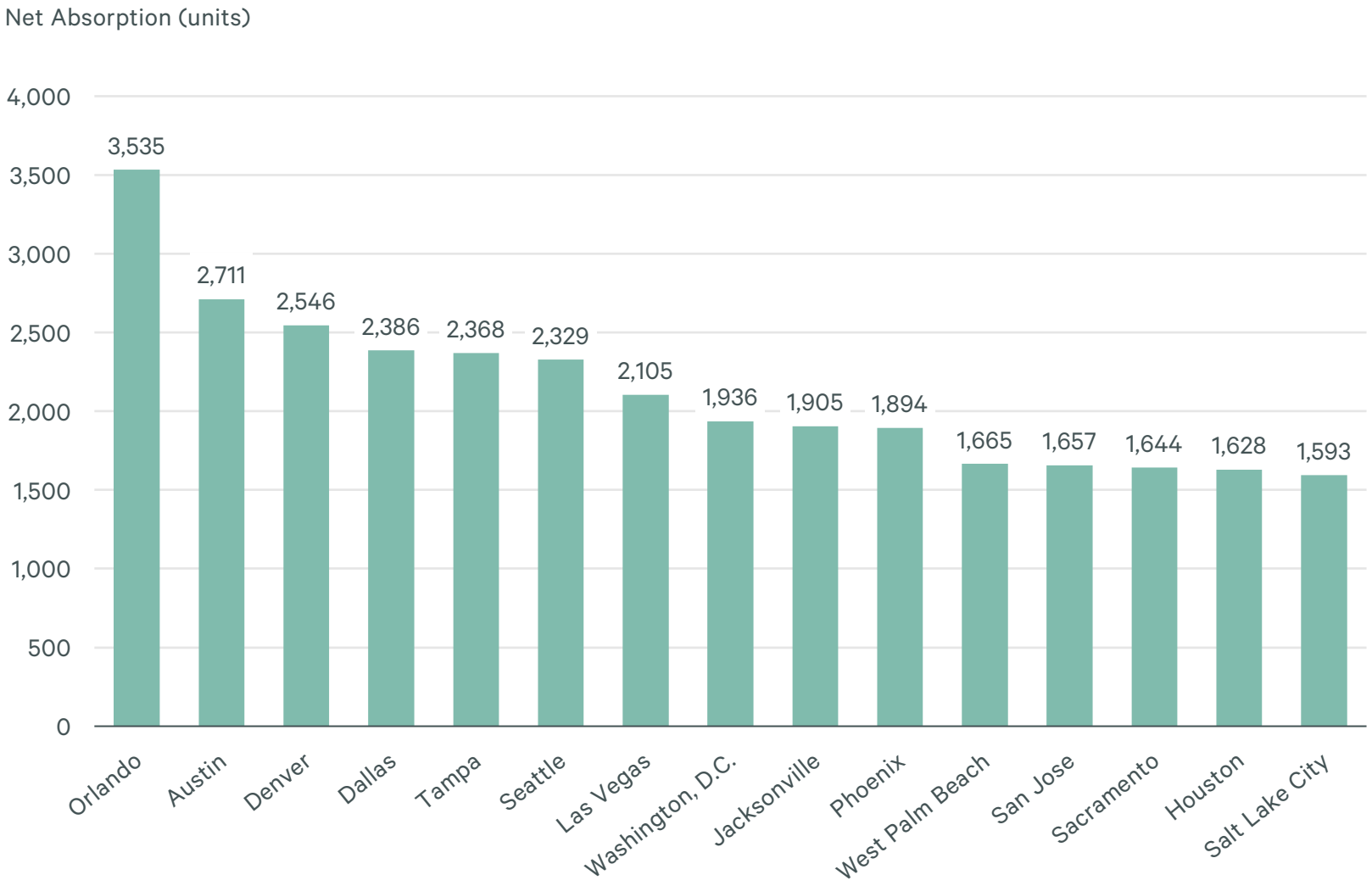
Figure 2
Sun Belt markets dominate for most demand

- Fifty-six of the 69 markets tracked by CBRE recorded positive net absorption in Q1, led by Orlando (3,500 units), Austin (2,700) and Denver (2,500). Ten of the top 15 markets for net absorption were in the Sun Belt. The 13 markets with negative absorption in Q1 had net positive rolling-four-quarter totals.
- Net absorption increased in 30 markets quarter-over-quarter.
- Sixty-seven markets recorded positive net absorption for the past four quarters, led by New York (22,000 units), Austin (17,000) and Houston (16,300). Sixty-six improved their rolling-four-quarter net absorption totals over last year.



Source: CBRE Research, CBRE Econometric Advisors, Q1 2024.

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Figure 3
Demand nearly matches new supply in seven markets

- Of the 20 leading markets for new supply over the past four quarters, seven (Orlando, Phoenix, Seattle, Washington, D.C., Miami, Charlotte and Jacksonville) had net absorption nearly match new completions in Q1.
- Except for New York, each of the top 20 markets for new supply had positive net absorption in Q1. All had positive rolling-four-quarter net absorption totals. These top markets accounted for 68% of national completions and 71% of net absorption.
- The top five markets for construction completions over the past four quarters (New York, Dallas, Austin, Houston and Atlanta) accounted for 28% of the national total. New York delivered 34,000 units or 8% of the national total.
- Approximately 760,000 units were under construction as of Q1, representing 4.2% of total existing inventory for the markets tracked by CBRE. New York had the most units under construction (75,600), followed by Dallas (44,000) and Austin (37,900).

		4 Quarters Ending Q1 2024		Q1 2024		As % of Inventory	
Rank*	Market	Completions	Net Absorption	Completions	Net Absorption	Completions	Net Absorption
	Sum of Markets	429,500	301,700	73,700	52,200	2.5	1.8
1	New York	34,000	22,000	4,800	(1,400)	1.4	0.9
2	Dallas	23,000	15,700	4,200	2,400	3.8	2.6
3	Austin	22,200	17,000	3,600	2,700	8.5	6.5
4	Houston	20,900	16,300	3,800	1,600	3.1	2.4
5	Atlanta	19,100	11,900	1,700	1,100	4.1	2.5
6	Orlando	15,800	12,100	3,900	3,500	6.5	5.0
7	Phoenix	15,500	11,500	1,900	1,900	4.0	3.0
8	Denver	15,300	13,300	3,200	2,500	4.3	3.8
9	Seattle	13,800	12,200	2,400	2,300	3.3	2.9
10	Washington, DC	13,600	12,400	2,000	1,900	2.1	1.9
11	Los Angeles	13,600	3,900	2,600	300	1.2	0.3
12	Minneapolis	13,300	12,500	1,800	1,000	4.1	3.9
13	Nashville	10,700	8,500	1,000	600	6.2	4.9
14	Miami	9,600	6,900	1,600	1,500	3.0	2.1
15	Boston	9,400	5,800	1,300	600	1.8	1.1
16	Fort Worth	9,100	6,200	1,500	500	4.8	3.3
17	Philadelphia	9,100	7,100	1,900	1,300	2.8	2.1
18	Charlotte	8,800	6,300	1,500	1,200	4.6	3.3
19	Jacksonville	8,600	6,100	2,100	1,900	7.0	5.0
20	Chicago	8,300	6,500	900	1,400	1.0	0.8

*By Annual Completions

Source: CBRE Research, CBRE Econometric Advisors, Q1 2024. All ratios based on unrounded figures of four-quarter totals.

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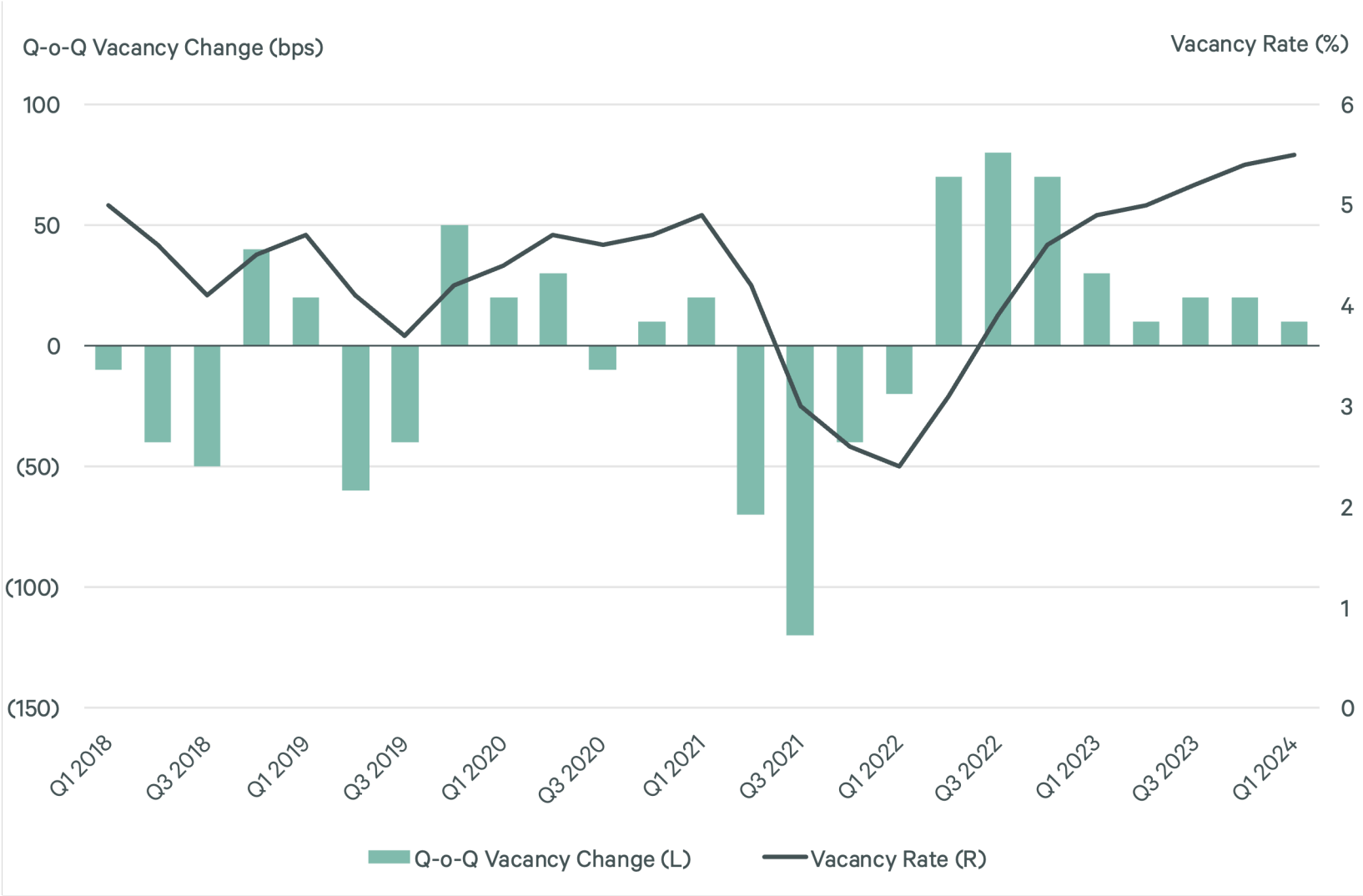
Figure 4
Vacancy rate ticks up in Q1 to 5.5%

- The overall multifamily vacancy rate increased by only 10 bps quarter-over-quarter to 5.5%, less than the 20-bp increase in the previous quarter. Although job growth and household formation continued to drive positive absorption, the vacancy rate likely will drift slightly higher through midyear.
- Vacancy rates in most markets now exceed their long-term averages due to high amounts of construction completions over the past several quarters. This has caused a deceleration in rent growth.
- Twenty-seven of 69 markets tracked by CBRE had quarter-over-quarter decreases in their vacancy rates in Q1, up from only two in Q4 2023.
- Madison, WI had the lowest Q1 vacancy rate at 2.8%. Among larger markets, New York maintained the lowest vacancy rate of 3.4%.
- Six markets had vacancy rates of between 3% and 4% (up from five in Q4 2023), while 12 had vacancy rates of between 4% and 5% (down from 15 in Q4). Fifty markets had vacancy rates of 5% or more, up by one from Q4.



Source: CBRE Research, CBRE Econometric Advisors, Q1 2024. Based on the 63 markets that comprise CBRE EA's Sum of Markets.

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Figure 5
Class B assets have lowest vacancy rate

- The Class B vacancy rate held steady in Q1 at 5.4%, while the Class A and Class C rates rose by 20 and 10 bps, respectively, to 5.9% and 5.5%. For the first time since mid-2015, Class B had the lowest vacancy rate among the asset classes.
- With Class C rent growth currently outpacing that of Class A and B assets, more renters are upgrading from Class C units. This has resulted in one of the lowest vacancy spreads between the three classes since 2015 even though there have been record Class A construction deliveries.
- Vacancy rates for all three classes were 110 to 160 bps above their Q1 2020 levels. Class A and B vacancy rates were 90 and 70 bps above their 2011-to-2019 average, respectively, while the Class C vacancy rate was just 50 bps higher.

Source: CBRE Research, CBRE Econometric Advisors, Q1 2024.

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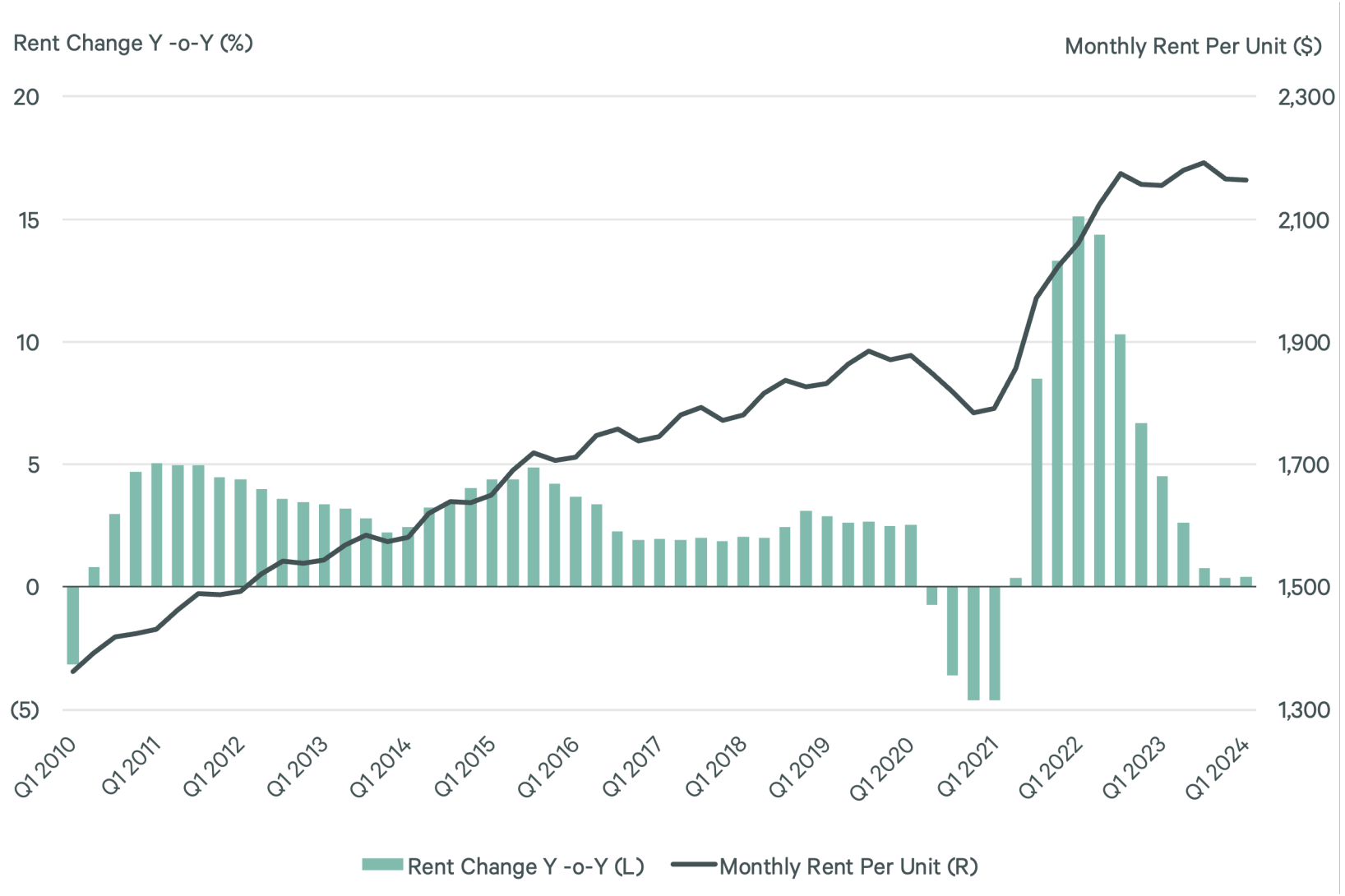
Figure 6
Rent growth stabilizes

- Average monthly rent was largely unchanged quarter-over-quarter in Q1 at $2,163. Year-over-year rent growth also held steady from Q4 at 0.4%. Average annual rent growth likely will remain relatively flat over the short term before beginning to accelerate in the second half of 2024.
- While Q1 average rent typically increases over Q4, the pre-pandemic Q1 quarter-over-quarter rent increase averaged only 0.1%. As such, the lack of quarter-over-quarter rent growth in Q1 2024 was on par with typical seasonal performance.
- Many markets continue to see negative rent growth, which is expected to continue in the short term until the overall market absorbs excess new supply.



Source: CBRE Research, CBRE Econometric Advisors, Q1 2024. Based on the 63 markets that comprise CBRE EA's Sum of Markets.

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Figure 7
Rent growth improves for Pacific & Mountain regions

- The Northeast and Midwest were the only two regions with positive year-over-year rent growth for in Q1. The Midwest led with 2.7%, while the Northeast had 2.4%.
- The Mountain and Pacific regions were the only ones with quarter-over-quarter rent growth, albeit still negative on a year-over-year basis.
- Twenty-eight of the 69 markets tracked by CBRE had negative year-over-year rent growth in Q1, one less than in Q4. Ten markets had negative but improving rent growth in Q1, while seven had bigger declines.
- San Francisco had the biggest jump in quarter-over-quarter rent growth (180 bps), followed by San Jose, Tulsa and Honolulu—each with 140-bp increases. Corpus Christi had the biggest decrease of 120 bps.
- Austin, Jacksonville and Atlanta had the most negative rent growth in Q1. Atlanta and Jacksonville saw their negative rent growth subside from Q4, while Austin's increased slightly.

Rank	Market	Percentage Rent Change Y-o-Y
	ALL MARKET	
	Sum of Markets	**0.4**
	PACIFIC	
	Region	**-0.4**
1	Honolulu	3.0
2	Orange County	2.6
3	Ventura	1.8
4	San Francisco	0.9
5	Sacramento	0.6
6	Seattle	0.4
7	San Diego	-0.1
8	San Jose	-0.2
9	Inland Empire	-1.1
10	Los Angeles	-1.3
11	Oakland	-1.4
12	Portland	-2.6
	MOUNTAIN	
	Region	**-1.6**
1	Albuquerque	1.4
2	Denver	0.4
3	Tucson	0.1
4	Las Vegas	-1.9
5	Colorado Springs	-2.1
6	Salt Lake City	-2.9
7	Phoenix	-3.8

Rank	Market	Percentage Rent Change Y-o-Y
	SOUTH CENTRAL	
	Region	**-2.0**
1	Tulsa	4.8
2	El Paso	1.7
3	Oklahoma City	1.5
4	Houston	-0.5
5	Corpus Christi	-2.0
6	Dallas	-2.0
7	Ft. Worth	-2.1
8	San Antonio	-3.6
9	Austin	-6.7
	SOUTHEAST	
	Region	**-1.6**
1	Louisville	4.3
2	Lexington	3.6
3	Norfolk	2.9
4	Greensboro	0.8
5	Miami	0.8
6	Richmond	0.2
7	Ft. Lauderdale	-0.2
8	Memphis	-0.4
9	Greenville	-0.6
10	West Palm Beach	-0.6
11	Birmingham	-1.3
12	Tampa	-2.3
13	Charlotte	-2.5
14	Nashville	-2.6
15	Raleigh	-3.0
16	Orlando	-4.1
17	Atlanta	-4.4
18	Jacksonville	-4.8

Rank	Market	Percentage Rent Change Y-o-Y
	MIDWEST	
	Region	**2.7**
1	Madison, WI	5.2
2	Dayton	4.7
3	Omaha	3.6
4	Milwaukee	3.4
5	Cincinnati	3.2
6	Chicago	3.1
7	Indianapolis	3.0
8	Cleveland	2.9
9	Kansas City	2.5
10	Columbus	2.5
11	St. Louis	1.9
12	Detroit	1.8
13	Minneapolis	1.5
	NORTHEAST/MID-ATLANTIC	
	Region	**2.4**
1	Providence	4.7
2	Hartford	3.8
3	Washington, D.C.	3.2
4	Boston	3.0
5	New York	2.4
6	Newark	2.4
7	Long Island	1.8
8	Philadelphia	1.5
9	Pittsburgh	1.0
10	Baltimore	0.6

Source: CBRE Research, CBRE Econometric Advisors, Q1 2024. Based on effective "same-store" rents.

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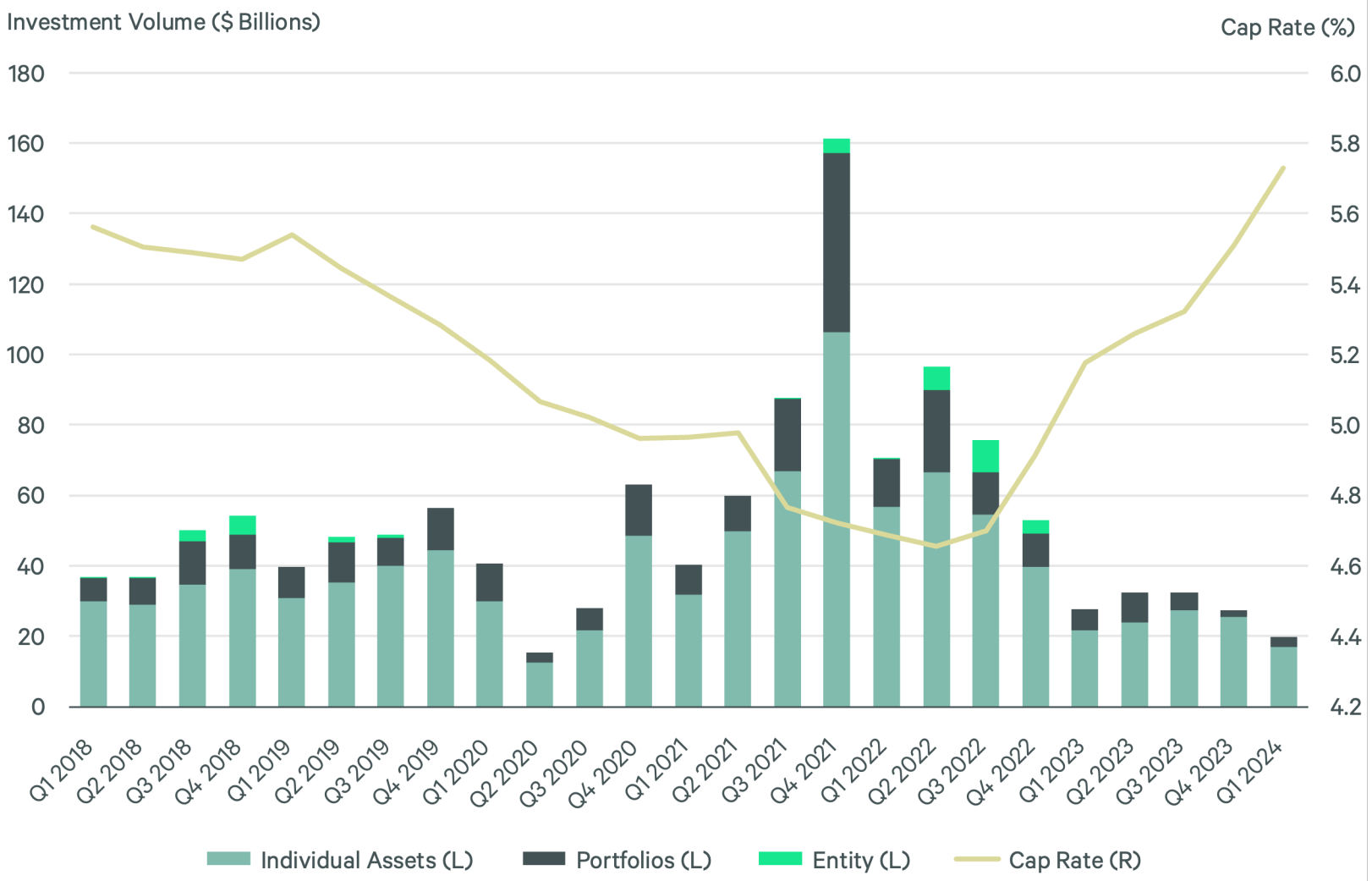
Figure 8
Lowest quarterly investment volume since 2020

- Q1 multifamily investment volume fell by 28% quarter-over-quarter to $19.8 billion, the lowest quarterly total since Q2 2020. Many owners have remained reluctant to sell until the Federal Reserve begins lowering interest rates.
- Rolling-four-quarter investment volume fell by more than 50% to $111.7 billion—the lowest four-quarter total since Q3 2014.
- The multifamily sector accounted for the largest share of total commercial real estate investment volume in Q4 (26%), as well as on a rolling-four-quarter basis (31%).
- The average multifamily cap rate increased by 20 bps to 5.7% in Q1. Since the Fed began raising interest rates in Q2 2022, multifamily cap rates have increased by a full percentage point. According to CBRE's Q1 2024 Prime Multifamily Underwriting Survey, cap rates currently used in underwriting deals for prime assets stabilized after increasing by a cumulative 170 bps since Q2 2020. This stabilization will likely show up in transactional cap rates over the next few quarters.



Source: CBRE Research, CBRE Econometric Advisors, MSCI Real Assets, Q1 2024.

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Figure 9
Sun Belt has smallest investment declines in Q1

- San Diego (-30%), Denver (-32%) and Austin (-36%) had the smallest year-over-year declines in rolling-four-quarter investment volume.
- Among the top 20 markets for investment volume over the past four quarters, most of those with the smallest declines were in the Sun Belt. Combined investment volume for the six gateway markets fell by 50%, compared with the average 57% decline for the rest of the multifamily sector.
- Metro New York led all markets for rolling-four-quarter investment volume in Q1 with $9.49 billion, accounting for 8.5% of the U.S. total. Dallas-Ft. Worth had the biggest year-over-year drop (-$8.83 billion), followed by Greater Los Angeles with a $7.89 billion decline.
- Rolling-four-quarter investment volume for the six gateway markets of New York, Boston, Chicago, Los Angeles, San Francisco and Washington, D.C. totaled $28.8 billion and accounted for 26% of total U.S. multifamily investment volume.

	Market	Rolling 4-Quarter Investment ($B)	YoY Change (%)	% of Total	Cumulative % Total	Q1 2024 Investment ($B)	YoY Change (%)
	U.S. Total	**111.67**	**-55.8**			**19.75**	**-28.3**
1	New York Metro	9.49	-42.0	8.5	8.5	1.51	-25.7
2	Dallas-Ft. Worth	7.64	-53.6	6.8	15.3	0.84	-61.1
3	Greater Los Angeles	5.48	-59.0	4.9	20.2	1.24	-47.8
4	Atlanta	5.25	-58.3	4.7	25.0	0.74	-21.6
5	Chicago	3.78	-38.3	3.4	28.3	0.50	-36.0
6	Boston	3.64	-56.0	3.3	31.6	0.58	-60.1
7	Miami-South Florida	3.53	-54.2	3.2	34.8	0.46	-40.6
8	Phoenix	3.31	-70.1	3.0	37.7	0.62	-35.9
9	Denver	3.29	-32.4	2.9	40.7	1.00	71.7
10	Greater Washington, D.C.	3.27	-55.5	2.9	43.6	0.70	-25.5
11	San Francisco Bay Area	3.17	-51.1	2.8	46.4	1.24	-21.9
12	Houston	3.12	-68.5	2.8	49.2	0.56	-29.2
13	Austin	2.93	-36.0	2.6	51.8	0.54	17.4
14	Seattle	2.27	-58.9	2.0	53.9	0.26	-56.8
15	San Diego	2.15	-29.7	1.9	55.8	0.40	-13.6
16	Raleigh-Durham	2.10	-48.7	1.9	57.7	0.39	5.9
17	Orlando	2.07	-45.9	1.9	59.5	0.41	22.2
18	Tampa	1.88	-74.6	1.7	61.2	0.11	-58.9
19	Charlotte	1.79	-70.5	1.6	62.8	0.17	-52.2
20	Nashville	1.73	-65.6	1.6	64.4	0.26	-10.4

Source: CBRE Research, MSCI Real Assets, Q1 2024.

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